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C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 000621

SIPDIS

STATE FOR EUR/RUS, EEB/IFD  
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E.O. 12958: DECL: 03/13/2019

TAGS: [EFIN](#) [ECON](#) [RS](#)

SUBJECT: RUSSIA'S 2009 REVISED FEDERAL BUDGET EXPECTED SOON  
(FINALLY)

REF: A. (08) MOSCOW 2800

[B](#). MOSCOW 203

[C](#). MOSCOW 330

[D](#). (08) MOSCOW 3376

[E](#). MOSCOW 502

[F](#). MOSCOW 586

Classified By: ECON MC Eric T. Schultz, Reasons 1.4 (b/d).

[1](#). (C) Summary. Finance Minister Aleksey Kudrin announced this week that the Russian Cabinet would begin its official review of the revised 2009 federal budget on March 16, almost three months to the day after Prime Minister Putin called for a revised budget. Intense intra-Cabinet negotiations have apparently finally resulted in common ground over expenditures, including "anti-crisis" measures, and the size of the deficit. In the meantime, the Finance Ministry's implementation of the existing budget, allowing only essential expenses, had produced a surprise budget surplus through February. That said, the 2009 deficit is still expected to reach nearly 8 percent of GDP and will consume the bulk of Russia's \$136 billion "rainy day" Reserve Fund. This may compel the GOR to consider borrowing at high interest rates in 2010 to finance further deficits. End Summary.

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The Course of Budgets Never Did Run Smooth  
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[2](#). (SBU) Following a March 10 government meeting, Finance Minister Kudrin announced the revised 2009 federal budget would be submitted for the Cabinet's review on March 16. The announcement came at what appeared to be the conclusion of almost three months of negotiations on how best to implement Prime Minister Putin's call last December to revise the budget. The original 2009 budget forecast an average oil price of \$95 per barrel, a surplus of 3.7 percent of GDP, and real GDP growth of 6.7 percent (Ref A). Putin's instructions called for a modification of the budget to reflect "new economic realities," namely an expected economic downturn and lower oil prices; the revised budget assumes an oil price of \$41 per barrel.

[3](#). (C) The primary cause for the delay in the revision process appears to have been Kudrin's campaign to persuade the Cabinet to reduce expenditures. Many of the ministers agreed early on in the process to an across-the-board reduction in their respective budgets. However, Kudrin wanted more, confirming to the Ambassador during a January 28 meeting (Ref B) that he was pressing for even greater cuts but was meeting resistance. First Deputy Prime Minister Igor

Shuvalov provided a glimpse into the budget process when he told attendees of Troika Dialog's Russia Forum in Moscow on February 4 that consultations to modify budget had been "difficult" (Ref C).

¶4. (C) Perhaps the truest indicator of the intensity of the disagreement was Kudrin's announcement earlier this week to abandon, temporarily, the three-year budget cycle the GOR put in place, with much fanfare, last year. Kudrin said the 2010 and 2011 budgets were being scrapped and would be reformulated at later dates from scratch. Moreover, he conceded that the efforts to compile the 2009 budget and 2010-2011 budget planning document had been "a waste of time." Kudrin explained the economy's uncertain outlook, coupled with the need for fiscal flexibility in responding to the unfolding crisis, made the three-year budget approach a cumbersome undertaking that the GOR would only consider reinstating should the economy improve.

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Budget Outline: Revenues Down, Spending Up  
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¶5. (C) The revised budget is not yet available to the public, but the consistency of press reporting provides an indication of its general parameters. The Ministry of Economic Development forecasts a -2.2 percent contraction of GDP to RUR 40.4 trillion (\$1.13 trillion) with inflation near 13 percent. Relative to the original 2009 budget, revised revenues will drop 42 percent to RUR 6.3 trillion (\$176 billion), and expenditures will climb approximately RUR 550 billion to RUR 9.6 trillion (\$266 billion), producing a

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deficit of RUR 3.3 trillion (\$92.4 billion), which is just over 8 percent of projected GDP. (N.B. Should GDP contract by more than 2.2 percent, as most other analyses predict, the deficit would be correspondingly higher.)

¶6. (C) These revised figures incorporate a variety of recent government actions. Revenues will decline not only because of a lower oil price but also because of the tax cuts Putin outlined in his November 20 speech to the United Russia Party Congress (Ref D). State corporations, such as RosNano and the Fund for Housing Maintenance, that have not invested budget funds disbursed to them last year will return more than RUR 160 billion (\$4.5 billion) for use in the revised budget. The new expenditure figure reflects an estimated RUR 1 trillion (\$28 billion) reduction in the budgets of the Duma as well as the Energy, Transportation, Education, and Foreign Affairs ministries.

¶7. (C) In addition, the new budget numbers will reflect increased anti-crisis spending, which will now total approximately RUR 1.5 trillion (\$42 billion) in 2009. The anti-crisis spending includes: recapitalizing banks (RUR 300 billion, \$8.4 billion); support to the regions (RUR 300 billion, \$8.4 billion); and increased pensions (RUR 380 billion, \$10.6 billion). The budget will also provide "supplemental capital" to state banks and financial institutions: Rosselkhozbank (RUR 75 billion, \$2.1 billion); RosAgroLeasing (RUR 29 billion, \$812 million); the Agency for Mortgage Housing Lending (AMHL, RUR 60 billion, \$1.68 billion); VEB (RUR 75 billion, \$2.1 billion), and the Deposit Insurance Agency (RUR 200 billion, \$5.6 billion). Finally, the anti-crisis package allocates RUR 80 billion (\$2.25 billion) for "labor market support" and unemployment benefits.

¶8. (C) Finally, the new budget will also provide support in the form of guarantees and subsidized loans for various sectors of the economy that may exceed RUR 183 billion (\$5.3 billion). This is despite official pronouncements that the country's firms will have to withstand the crisis on their own. Among the intended recipients of these support packages are: airlines (RUR 32 billion, \$896 million), the auto industry (RUR 39 billion, \$1.1 billion), defense contractors

(RUR 50 billion, \$1.4 billion), Russian Railways (RUR 50 billion, \$1.4 billion), industrial exporters (RUR 6 billion, \$168 million), and small businesses (RUR 6.2 billion, \$174 million).

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Russia Already Has a Budget for 2009  
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¶9. (C) In the meantime, the GOR has been operating within the confines of the original 2009 federal budget as administered by the Ministry of Finance and Kudrin in particular. According to MDM Bank Chief Financial Officer Vadim Sorokin, Kudrin has used the delay to his benefit, using the mismatch between the revenue forecasts of the existing budget (RUR 10.4 trillion) and those of the revised budget (RUR 6.3 trillion) as justification to delay and minimize disbursements on approved expenditures.

¶10. (C) Kudrin's conservative budget execution produced a surprise surplus through February, despite the dramatically lower revenues. Higher School of Economics Professor, and former Central Bank Deputy Chairman, Sergei Aleksashenko told us Kudrin had been authorizing disbursements for salaries, pensions, and health care but little else. In his February 27 meeting with the Ambassador (Ref E), Presidential Assistant Dvorkovich lamented the surpluses, noting that they had further reduced demand in the economy.

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Financing the Deficit  
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¶11. (C) As reported (Ref F), the deficit will be financed entirely from Stabilization Fund resources, with Reserve Fund resources providing the lion's share. In addition, it now appears the National Welfare Fund (NWF) will cover a small portion of the deficit, equal to approximately 1 percent of GDP (RUR 300 billion, \$8.4 billion), for the bank re-capitalization portion of the anti-crisis program. In the case of the NWF, the Finance Ministry will also sell the Fund's foreign exchange holdings to the Central Bank for

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rubles, which the ministry will then use to supply new capital.

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Comment  
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¶12. (C) Although the fiscal landscape as presented appears generally manageable during 2009, Russia's economic downturn shows few signs of reversing before the end of the year. Moreover, Russian budgets tend to be living documents, subject to periodic amendments as conditions change. To wit, makers of nesting dolls have reportedly received orders from the government worth RUR 1 billion (\$28 million) as part of crisis relief for Russia's artisans. Moreover, if the contraction is greater than forecast, as many private sector analysts predict, or if the slowdown lingers as seems likely, then the deficit will be greater than 8 percent. Consequently, the demand on government resources, including the Reserve Fund will also be greater. This suggests the GOR may be compelled in 2010 or even later this year to pursue external debt financing, likely commercially at high interest rates, to support its fiscal policy priority of support for social spending. End Comment.  
BEYRLE